

Frequently Asked Questions on KYC Norms and Anti Money Laundering

Introduction.

Money laundering has become a pertinent problem worldwide threatening the stability of various regions by actively supporting and strengthening terrorist networks and criminal organizations. The links between money laundering, organized crime, drug trafficking and terrorism pose a risk to financial institutions globally.

What is Money Laundering and Financial Terrorism?

Money laundering refers to conversion of money illegally obtained to make it appear as if it originated from a legitimate source. Money laundering is being employed by launderers worldwide to conceal criminal activity associated with it such as drugs /arms trafficking, terrorism and extortion.

Financial Terrorism means financial support to, in any form of terrorism or to those who encourage, plan or engage in terrorism.

Money launderers send illicit funds through legal channels in order to conceal their criminal origin while those who finance terrorism transfer funds that may be legal or illicit in original in such a way as to conceal their source and ultimate use, which is to support Financial Terrorism.

What is KYC?

KYC is an acronym for “Know your Customer” a term used for Customer identification process. It involves making reasonable efforts to determine, the true identity and beneficial ownership of accounts, source of funds, the nature of customer’s business, reasonableness of operations in the account in relation to the customer’s business, etc which in turn helps the banks to manage their risks prudently.

The objective of the KYC guidelines is to prevent banks being used, intentionally or unintentionally by criminal elements for money laundering.

What is KYC Policy?

As per RBI guidelines issued vide their circular dated 29/11/2004, all banks are required to formulate a KYC Policy with the approval of their respective boards. The KYC Policy consists of the following four key elements.

- 1) Customer Acceptance Policy
- 2) Customer Identification Procedures
- 3) Monitoring of Transactions
- 4) Risk Management.

Who is a Customer?

For the purpose of KYC policy a ‘customer’ may be defined as:

- A person or entity that maintains an account and/or has a business relationship with the bank;
- One on whose behalf the account is maintained (i.e. the beneficial owner);
- Beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors etc as permitted under the law, and

- Any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank, say a wire transfer or issue of high value demand draft as a single transaction.

What is a Customer Acceptance Policy?

Customer Acceptance Policy refers to the general guidelines followed by banks in allowing customers to open accounts with them. Generally the guidelines stipulate that no accounts shall be opened in anonymous or fictitious names or when the identity of the customer matches with any person with known criminal background or banned entities. Similarly accounts should not be opened when the bank is unable to verify the identity and/or obtain documents required as per the bank’s policy.

What is the Customer Identification Procedure?

Customer identification means identifying the customer and verifying his/her identity through reliable and independent documents, data and information. Banks would need to satisfy to the competent authorities that due diligence was observed in accordance with the requirements of existing laws and regulations.

What are the features to be verified and documents required to be obtained from customers?

The features to be verified and documents that may be obtained vary depending upon the type of customers. The same are furnished below:

Features	Documents*
1.0 Accounts of individuals 1.1 Legal name and any other names used 1.2 Correct permanent address	(i) Passport (ii) PAN Card (iii) Voter’s Identity Card (iv) Driving License (v) Identity Card (Subject to the bank’s satisfaction) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank (i) Telephone bill (not older than 3 months) (ii) Bank account statement /Pass Book (iii) Letter from any recognized public authority (iv) Electricity bill (not older than 3 months) (v) Ration Card (vi) Letter from employer (Subject to satisfaction of the bank)
2.0 Accounts of Companies 2.1 Name of the Company 2.2 Principal place of business 2.3 Mailing address of the company 2.4 Telephone / Fax number	(i) Certificate of incorporation and Memorandum & Articles of Association. (ii) Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account. (iii) Power of Attorney granted to its managers, officers or employees to transact business on its behalf (iv) Copy of PAN allotment letter (v) Any officially valid document establishing the proof of existence and proof of address of the entity to the satisfaction of the bank. (vi) Certificate of Commencement of Business.

<p>3.0 Accounts of partnership firms 3.1 Legal name 3.2 Address 3.3 Names of all partners and their addresses 3.4 Telephone numbers of the firm and partners</p>	<p>(i) Registration certificate, if registered.(ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses (v) Proof of existence & proof of address of the firm.</p>
<p>4.0 Accounts of trusts & foundations 4.1 Names of trustees, settlers, beneficiaries and signatories 4.2 Name and addresses of the founder, the managers / Directors and the beneficiaries 4.3 Telephone / Fax Numbers</p>	<p>(i) Certificate of registration, if registered. (ii) Power of Attorney granted to transact business on its behalf (iii) Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/managers / directors and their addresses. (iv) Resolution of the managing body of the foundation/association (v) Any officially valid document establishing the proof of existence and proof of address of the entity to the satisfaction of the bank.</p>

* Please note that this is not an exhaustive list and is only indicative. For further details please speak to the personal banker.

When does KYC apply?

KYC will be carried out for the following but is not limited to:

- Opening a new account.(deposit/ borrowal)
- Opening a subsequent account where documents as per current KYC standards not submitted while opening the initial account.
- Opening a locker facility where these documents are not available with the bank for all locker facility holders.
- When the bank feels it is necessary to obtain additional information from existing customers based on the conduct of the account.
- After periodic intervals based on instructions received from RBI.
- When there are changes to signatories, mandate holders, beneficial owners, etc.

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